Supreme Court, U.S
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No. 06-3

IN THE

Supreme Court of the United States

PAYLESS SHOESOURCE, INC.,

Petitioner,

v.

ADIDAS AMERICA, INC. and ADIDAS-SALOMON AG,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the United States Court of Appeals for the Ninth Circuit, in applying the test for evaluating Rule 54(b) judgments as articulated in *Curtiss-Wright Corp. v. General Electric Corp.*, correctly sustained the Rule 54(b) certification by the District Court.

LIST OF PARTIES

The parties are correctly identified in the style of the Petition and of this response.

CORPORATE DISCLOSURE STATEMENT PURSUANT TO RULE 29.6

Respondent adidas America, Inc. is a fully owned subsidiary of adidas-Salomon North America, Inc. (now named adidas North America, Inc.), which is a non-public Delaware corporation. adidas North America, Inc. is a fully owned subsidiary of Respondent adidas-Salomon AG.

Respondent adidas-Salomon AG has no parent corporation. No publicly held company owns 10% or more of the stock of Respondent adidas-Salomon AG.

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STATEMENT OF THE CASE

Disputes between adidas America, Inc. and adidas-Salomon AG (collectively "adidas"), and Payless Shoesource, Inc. ("Payless"), concerning the infringement by Payless of adidas's federally registered and famous Three-Stripe mark span more than a decade:

In 1993, "fashion trendsetters decided . . . that they wanted the 'retro look,' and the three-stripe Adidas logo, which had been overtaken by the Nike swoop, was suddenly hot again. . . . Demand for Adidas products soared."[1] In keeping with its business model, Payless began selling a shoe with three stripes and a shoe with four "double-serrated" stripes, and adidas filed suit in the United States District Court for the Eastern District of New York. The dispute was quickly settled in an agreement expressly directed to the "PSS 3-stripe" and "PSS 4-stripe" shoes in the pending "matter."

Adidas agreed to (1) dismiss the lawsuit; and (2) release Payless from claims as to the "PSS 3-stripe" and "PSS 4-stripe" shoes. Payless agreed to (1) pay adidas a confidential sum of money; (2) not reorder the PSS 3-stripe and 4-stripe shoes; (3) not sell "athletic shoes bearing three substantially straight parallel stripes on the side of the shoe running diagonally from the outsole forward to the lacing area"; and (4) not sell "athletic shoes bearing two or four parallel, double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area."

1. The facts are taken from the annotated version that appeared in the initial pages of Plaintiffs-Appellants' Opening Brief to the Ninth Circuit. Plaintiffs-Appellants' Opening Brief at 3-6, *adidas America, Inc., et al. v. Payless Shoesource, Inc.*, No. 04-35553 (9th Cir. Nov. 26, 2004).

The covenants as to future stripe usage were all negative (denoting what Payless would not do); there was no covenant by adidas not to sue as to any stripe design; nothing in the agreement addressed stripe designs that Payless had a right to sell.

In 2001, the "retro look" was again in vogue, and Payless, again in keeping with its business model, adopted a shoe with a shell toe, a flat sole, a heel patch and four straight-edged stripes, imitating the trade dress of adidas's famous Superstar model. Payless also sold shoes that only bore two and four straight-edged stripes. Adidas filed suit in the United States District Court for the District of Oregon, alleging trademark and trade dress infringement and breach of the 1994 agreement. Before discovery commenced, both adidas and Payless moved for summary judgment as to the contract claims.

Adidas claimed that the Payless stripes were stitched so as to appear to be serrated and thus breached the negative covenant in the 1994 agreement that Payless, to iterate, would not "sell athletic shoes bearing two or four parallel, double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area." The Magistrate Judge denied adidas's motion because the Payless stripes at issue were not, in fact, double-serrated.

Payless claimed that the negative covenant set, for all time, the outer limits of Payless's obligations with respect to four stripes, *i.e.*, that Payless could adopt any four stripe design it wanted so long as the stripes were not parallel, double-serrated, of contrasting color *and* diagonal. The Magistrate Judge granted Payless's motion insofar as the *trademark* issues were concerned, holding that the negative

covenant in the 1994 agreement imposed "a[n implied] reciprocal obligation on Adidas to refrain from asserting infringement" as to stripes that did not possess "all the proscribed characteristics." The Magistrate Judge denied Payless's motion that the *trade dress* claims were likewise contractually preempted, holding that those claims were "not based solely on Payless' use of stripes, but on use of stripes in combination with other design features."

The Magistrate Judge did not address the substantive basis for either the trademark or the trade dress claims, *i.e.*, whether or not the Payless designs created a likelihood of consumer confusion. The Magistrate Judge held, indeed, that the 1994 agreement was unambiguous and rejected any extrinsic evidence as to its interpretation.

Both adidas and Payless moved for Rule 54(b) final judgments, but adidas decided to proceed with discovery of its trade dress claims and withdrew its motion. In seeking to appeal the denial of its motion for summary judgment, Payless argued:

> There are no disputed facts concerning the Agreement; resolution of the Agreement issue is factually independent of the remaining claims. No further development of the record in this case will impact interpretation . . . of the Agreement, and therefore immediate appeal of this dispositive issue is warranted.

The Magistrate Judge denied Payless's motion, noting that "a *denial* of a motion for summary judgment is not generally appealable because it 'does not finally dispose of any claim.'"

Soon, however, the Magistrate Judge's interpretation of the 1994 agreement permeated adidas's other enforcement efforts. First, Wal-Mart threatened, and insisted on preserving in a settlement agreement, its right to assert that a 1996 Judgment on Consent, enjoining it from selling "any footwear with four parallel stripes with serrated edges on it," limited adidas's trademark rights, for all time, to such shoes.[2] Second, in a separate action, Kmart asserted that its laches defense was supported by the purported agreement that Payless could sell two and four stripe shoes with straight edges. Third, even when Payless represented, after completion of discovery, that it did not intend to continue ordering Superstar imitations, the parties could not mediate their differences because Payless insisted on preserving its adjudicated right to sell any two or four stripe shoe as long as the stripes were not serrated, parallel, contrasting *and* diagonal.

Judge Leavy of the Ninth Circuit, who conducted the mediation, thus suggested that a final judgment be entered as to the contractual preemption of the trademark claims so that the narrow dispute as to the "plain meaning" of the contract could be reviewed. Payless agreed, and the District Court granted adidas's unopposed Rule 54(b) motion.

---

2. In early 2006, in a subsequent action, Wal-Mart ultimately filed such a motion, quoting from the Magistrate Judge's ruling in *Payless*. Adidas argued, as it had successfully argued on appeal in *Payless*, that the Judgment on Consent "addressed only those designs at issue in the [Wal-Mart] action" and did not contain covenants "limit[ing] for all time adidas's rights to stripe patterns other than those at issue. . . ." In a June 16, 2006 Order, District Judge Anna J. Brown, as had the Ninth Circuit, adopted adidas's position and denied Wal-Mart's motion. Opinion and Order, *adidas America, Inc., et al. v. Wal-mart Stores, Inc.*, No. 05cv1297 (D. Or. June 16, 2006) (App., *infra*, 4a-6a).

At oral argument before the Ninth Circuit, Judge Kleinman asked counsel to comment on the Rule 54(b) decision in *Wood v. GCC Bend, LLC*, 422 F.3d 873 (9th Cir. 2005), decided after the appeal had been fully briefed. Adidas's counsel had not read the decision and could not comment. Payless's counsel had read the decision and stated that there was not an "intertwining of facts" between the trademark claims on appeal and the trade dress claims still before the District Court:

> [A] trademark infringement case is different than a trade dress case. . . . So sure, they're going to prove up evidence of the fame of their shoe, which happens to have three stripes, but that isn't determinative of the outcome of the ... trade dress case. They have the other burden of proving that their trade dress is not functional, which isn't in the trademark infringement statute. The . . . trade dress before the Court now is functional. It's got a heavy toe. . . . If you've ever played basketball, you know you want a heavy toe. It's got a thick sole because it's a basketball shoe, and it's got three stripes because it holds the foot in place. Now, those are all issues that will be proven there that would not be issues in the trademark case. . . .

Transcript of Oral Argument at 21-22, *adidas America, Inc., et al. v. Payless Shoesource, Inc.*, No. 04-35553 (9th Cir. Nov. 14, 2005). Consistent with its agreement that the parties would seek entry of a partial summary judgment so that the Magistrate Judge's ruling on the narrow contract clause could be reviewed, Payless thus asserted that the trademark and trade dress claims involved two *different* sets of shoes, could *not* thus result in duplicate recoveries, and entailed both *different* facts and *distinct* defenses.

As to the merits, the Panel unanimously indicated at the oral argument its disagreement with the Magistrate Judge's interpretation of the contract:

> JUDGE KLEINMAN: I'm having trouble understanding [Payless's position] for two reasons. One reason is, it's a negative pregnant. Nowhere does this settlement agreement that you're relying on say Payless can manufacture shoes with stripes that are like adidas stripes in other respects. * * * [Two,] it just doesn't square with common sense to me that adidas would say, you can violate the Lanham Act any way you want in the future. You can copy our shoes just as much as you'd like, so long as you don't do it in this particular way that you have done it in the past. I can't see why people would do that.

Id. at 15. Judge Kleinfeld observed that "the primary manufacturer can never imagine either all the designs it will come up with in the future or all the designs that others may come up with in the future that are similar enough to confuse the public and different enough to confuse the Court." *Id.* at 23-24. In a colloquy with Payless's counsel at the end of the argument, Judge Kleinfeld revealed the almost bizarre reach of the Magistrate Judge's interpretation:

> JUDGE KLEINFELD: . . if adidas came out with a[n eight stripe shoe] in January 2006, and then Payless made an exact copy of it with regard to stripes, Payless would be shielded under the settlement agreement, in your view.
>
> * * *

> [Payless] Absolutely. Federal registration for . . . eight stripes.
>
> JUDGE KLEINFELD: Eight stripes, you're shielded, you can copy it.
>
> [Payless] Stripes on shoes were settled.

Id. at 25-26.

In an Order filed on January 5, 2006, a majority of the Panel first determined that it had jurisdiction to consider the appeal:

> The present case is distinguishable from *Wood* because the current resolution of the summary judgment dispute regarding the claims certified pursuant to Rule 54(b) revolves around a single legal issue, interpretation of the 1994 settlement agreement, while the claims that remain before the District Court involve the factually and legally distinct issue of trade dress infringment.

Pet. App. at 3a. The Panel then unanimously concurred as to the merits that:

> A plain reading of the [1994 settlement] agreement demonstrates that adidas released only those claims against Payless that adidas "brought or could have brought" before the dismissal of the action that was the subject of the settlement. The shoe stripe designs at issue in the present dispute, however, were not produced by Payless until after the 1994 agreement was concluded.

> Adidas could not have brought a claim against shoes not in existence prior to the execution of the agreement. [Citation omitted.] Therefore, the 1994 settlement agreement does not preclude adidas's present Lanham Act claims against Payless.

Id. at 4a. The Panel majority thus reversed and remanded the narrow contractual preemption of the trademark claims. *Id.* at 5a.

REASONS FOR DENYING THE PETITION

I. There Is No Overlap between the Trademark Claim as Adjudicated by the Magistrate Judge and the Trade Dress Claim Remaining before the District Court.

Since the "Superstar" *trade dress* incorporates the Three-Stripe *trademark* as one of its four components, there is minimal factual "overlap" *substantively* between the two claims, and Payless seizes on the overlap as the centerpiece of its petition. Neither claim, however, was *substantively* adjudicated. Rather, both the Magistrate Judge and the Ninth Circuit focused on the "plain meaning" of the *contract*, as to which trademark and trade dress evidence was irrelevant; the narrow issue both in the District Court and on appeal was the existence *vel non* of an *implied* "reciprocal obligation" (or covenant not to sue) in the 1994 agreement, as to stripes that were not double-serrated, parallel, of contrasting color *and* diagonal. As Judge Kleinfeld noted at the outset of the argument before the Ninth Circuit, the Panel only had to decide "whether paragraph 3 [of the agreement] has a negative pregnant that allows Payless to make shoes with stripes that may look like adidas's shoes, so long as they are not parallel, double-serrated and so forth."

Because, therefore, likelihood of confusion does not bear on contract interpretation, the District Court and the Ninth Circuit correctly recited that facts as to the contractual preemption of trademark claims, as to which a partial summary judgment was issued, could not possibly overlap the trade dress claim. The construction of an unambiguous contract is a legal matter, does not involve facts, and cannot thus involve overlapping facts. The District Court and the Ninth Circuit focused pragmatically on the absence of relevant overlaps, rather than on theoretical overlaps as to claims that were not substantively addressed.

II. This Case Is Controlled by the Decision in *Curtiss-Wright Corp. v. General Electric Corp.*, 446 U.S. 1 (1980) Which Is Not Challenged by the Petition.

The District Court additionally and correctly observed that: there was "little, if any, chance that the [Ninth Circuit would] need to consider the same issues on any subsequent appeal of the case . . . or be asked to determine any questions that still remain" before the District Court; "the need for appellate review . . . [would] not be mooted by further developments" in the District Court; "an immediate appeal [would] preserve judicial resources by facilitating . . . single trial of all claims or a settlement between the parties"; and "Judge Edward Leavy of the Ninth Circuit Court of Appeals, who conducted a two day mediation between the parties, [had] indicated his belief that an immediate appeal . . . would facilitate the efficient and swift resolution of" the dispute.[3]

3. Payless makes much of a different ruling on its earlier Rule 54(b) motion by the *Magistrate Judge* immediately after disposition of the summary judgment motions. The second ruling was by the *District Court* on adidas's different motion after full discovery on

(Cont'd)

This case is thus controlled by this Court's decision in *Curtiss-Wright Corp. v. General Electric Co.*, 446 U.S. 1,-10 (1980) where the Court noted that:

> There are two aspects to the proper function of a reviewing court in Rule 54(b) cases. The court of appeals must, of course, scrutinize the district court's evaluation of such factors as the interrelationship of the claims so as to prevent piecemeal appeals in cases which should be reviewed only as single units. But once such juridical concerns have been met, the discretionary judgment of the district court should be give substantial deference, for that court is "the one most likely to be familiar with the case and with any justifiable delay."

Paraphrasing *Curtiss-Wright*, while "the facts underlying most of the[] claims and counter-claims [were] in dispute," the "sole dispute [as to the trademark claim as adjudicated by the magistrate judge] concern[ed] the application of a [narrow contract] clause." 446 U.S. at 4. There was, therefore, no error in the entry of a partial final judgment on "an isolated and strictly legal issue on which summary judgment had been entered...," 446 U.S. at 11, and the District Court did not abuse its discretion in analyzing the considerations supporting the entry of a partial summary judgment. 446 U.S. at 12-13.

(Cont'd)

the trade dress claim, a two-day mediation and the recommendation of a Circuit judge who conducted the mediation. There is no conflict; rather the rulings were entered at different levels, on different motions, based on different considerations, that reflected the very different stages of the litigation.

III. There Is No Conflict between the Rule 54(b) Determination in This Case and Such Determinations in Other Circuits.

This case may also be analogized to *Ty, Inc. v. Publications Int'l. Ltd.*, 292 F.3d 512 (7th Cir. 2002). There the court noted that "at first glance the factual overlap might seem complete" because (unlike here where the trade dress and trademark shoes are distinct), "the identical images, PIL's photographs of Beanie Babies, [were] claimed to infringe both Ty's copyrights and its trademarks," 292 F.3d at 516. The court upheld, however, an appeal from the adjudicated copyright claims while the trademark claims remained pending below, observing that "the only facts before us on this appeal, the facts bearing on PIL's defense of fair use, are unlikely to be at issue in the trademark phase of the case." *Id.* at 516. Factual overlaps must be pragmatically, not theoretically assessed.

Because the merits of the trademark claim were *not* reached in the course of, and were *not* relevant to, the adjudicated contract claims, there is no conflict between the Panel majority's ruling and either earlier cases in the Ninth Circuit or cases in other Circuits. The trade dress claims were not "logically related, [either] from a factual or legal standpoint," with the preemption of the trademark claims by an *implied* "reciprocal obligation." *Morrison-Knudsen Co. v. Archer*, 655 F.2d 962, 965-66 (9th Cir. 1981). The "factual underpinnings of the [contractually] adjudicated [trademark claims] and [substantively] unadjudicated [trade dress] claims are [not] intertwined." *Ebrahimi v. City of Huntsville Bd. of Educ.*, 114 F.3d 162, 167 (11th Cir. 1997). Because the facts substantively relevant to the trademark and trade dress claims are alien to the "plain meaning" of the contract, there

is no risk of the Ninth Circuit "having to reacquaint itself again and again with . . . the basic facts of the case." *Minority Police Officers Ass'n v. City of South Bend*, 721 F.2d 197, 200 (7th Cir. 1983)[4].

Payless argues that its rejected contract "defense" to the trade dress claims remained before the District Court, but the very heart of that "defense" – the existence of an *implied* "reciprocal obligation" or covenant not to sue – was before the Ninth Circuit and, as Payless has noted from the outset, was nonfactual in nature, could not be impacted by likelihood of confusion evidence as to trade dress or trademark claims and would not likely be revisited, therefore, either factually or legally, on a subsequent appeal.[5] Payless argues that contract and trademark abandonment counterclaims were still before the District Court, but, as was the case in *Cold Metal Process Co. v. United Engineering & Foundry Co.*, 351 U.S. 445 (1956), those claims were added late in the proceedings and did not involve (other than as to the *implied* "reciprocal obligation" issue that was before the Ninth Circuit)

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4. Likelihood of confusion is a fact intensive inquiry involving consideration of multiple factors. *See AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979). The confusion factors were not discussed in the parties' briefs or argument because they were not relevant to the narrow contract issue. The Ninth Circuit did not thus familiarize itself with facts that it will need to visit on subsequent appeals.

5. As noted above, Payless initially sought the entry of a partial final judgment that would permit it to appeal the denial of its "defense" to the trade dress claims. After mediation and its agreement to pursue a partial final judgment of the contractually rendered trademark claims, Payless decided, apparently as a strategic move, to forego challenging the magistrate judge's denial of its summary judgment motion as to trade dress.

overlapping considerations. Their true relevance to Rule 54(b) is reflected by the fact that Payless did not think to cite them in its post argument brief to the Ninth Circuit or in its petition for rehearing.

There is thus no conflict of the type that Payless asserts is appropriate for review in its petition. There is simply no overlap that precluded entry of a Rule 54(b) partial final judgment, and Payless, indeed, is judicially estopped to assert that there is one. As noted above, Payless agreed that Rule 54(b) was the appropriate means to present the narrow contractual issue to the Ninth Circuit; Payless did not raise the question of overlaps when adidas moved for the entry of a partial final judgment, and Payless thereby obtained an order that it then deemed to be to its benefit; before the Ninth Circuit, Payless argued that there were no "intertwining of facts"; and Payless only discovered possible overlaps when, upon reflection, it clearly appeared that the Panel was unanimous as to the error in the Magistrate Judge's contract ruling. *Certiorari* is not a remedy for a party that, after a change in strategy, challenges a ruling that it was instrumental in obtaining.

IV. There Is No State of Disarray Among the Circuits, Much Less a Need for Precise Rule 54(b) Guidelines.

In *Curtiss-Wright*, this Court articulated a two step process for dealing with Rule 54(b) issues: (i) to prevent piecemeal appeals, appellate courts must first examine the record for any overlaps between the adjudicated claims and the claims remaining below; and (ii) then determine whether the District Court properly exercised its discretion in entering a partial final judgment. This time tested formula has been iterated and applied by every Circuit Court of Appeals. *See*,

Quinn v. City of Boston, 325 F.3d 18, 27 (1st Cir. 2003); *Ginett v. Computer Task Group, Inc.*, 962 F.2d 1085, 1093-96 (2d Cir. 1994); *Berckeley Inv. Group, Ltd. v. Colkitt*, 259 F.3d 135, 145 (3d Cir. 2001); *Fox v. Baltimore City Police Dep't*, 201 F.3d 526, 530 (4th Cir. 2000); *Brown v. Miss. Valley State Univ.*, 311 F.3d 328, 332 (5th Cir. 2002); *Lowery v. Fed. Express Corp.*, 426 F.3d 817, 822-23 (6th Cir. 2005); *Ty, Inc. v. Publ'ns Int'l Ltd.*, 292 F.3d 512, 515-16 (7th Cir. 2002); *Factory Mut. Ins. Co. v. Bobst Group USA, Inc.*, 392 F.3d 922, 924 (8th Cir. 2004); *Amerisourcebergen Corp. v. Dialysist West, Inc.*, 445 F.3d 1132, 1135-38 (9th Cir. 2006); *Stockman's Water Co., LLC v. Vaca Partners, LP*, 425 F.3d 1263, 1265-66 (10th Cir. 2005); *Ebrahimi v. City of Huntsville Bd. of Educ.*, 114 F.3d 162, 166-68 (11th Cir. 1997); *Intergraph Corp. v. Intel Corp.*, 253 F.3d 695, 699 (Fed. Cir. 2001).

With an out of context quotation from the Moore treatise, Payless erroneously suggests that the Courts of Appeal need very specific guidelines. Moore concludes, to the contrary, that "the courts appear to apply a practical rather than a formal analysis," "the court[s] should take a pragmatic, practical view," and "an inflexible approach to the issue of whether a Rule 54(b) judgment finally adjudicates one of multiple claims would be inappropriate." 10 J. MOORE, MOORE'S FEDERAL PRACTICE § 54.22[2][b][i] (3d ed. 2003). Moore thus echoes and endorses this Court's view in *Curtiss-Wright*, 446 U.S. at 10-11 ("because the number of possible situations is large, we are reluctant to either fix or sanction narrow guidelines for the district courts to follow"). In an era when multiple claims in litigation are common, this Court can no more anticipate and set rules for all possible applications of Rule 54(b) than adidas in 1994 could anticipate all infringements of its trademarks that Payless might devise.

Payless's effort to create a parade of horribles is thus as strained as was its implied "reciprocal obligation." To the extent that Payless suggests that the overall increase in case filings in the Courts of Appeal is due to purported "substantial confusion" over Rule 54(b), it is again in error.[6] Rule 54(b) is not annotated with an unusual number of decisions. Nuances may exist between Circuits, and some Courts of Appeal may have occasionally gotten a Rule 54(b) assessment wrong, but this Court's *certiorari* power is not to be expended polishing nuances or correcting individual errors as to the assessment of factual overlaps.

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6. In actuality, the report cited by Payless credits the increase in caseloads to "upswings in criminal appeals, original proceedings, and prisoner petitions . . . as well as from continual growth in appeals of administrative agency decision involving the Board of Immigration Appeals." JUDICIAL BUSINESS OF THE UNITED STATES COURTS 13 (2005).

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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APPENDIX

**APPENDIX — OPINION AND ORDER
THE UNITED STATES DISTRICT COURT
DISTRICT OF OREGON
DATED JUNE 16, 2006**

05-CV-1297-BR

ADIDAS AMERICA, INC., and ADIDAS-SALOMON AG,

Plaintiffs,

v.

WAL-MART STORES, INC.,

Defendant.

OPINION AND ORDER

BROWN, Judge.

This matter comes before the Court on Defendant's Motion to Enforce March 15, 1996 Judgment on Consent (#17). On May 1, 2006, the Court heard oral argument on the Motion and took it under advisement.

For the reasons that follow, the Court **DENIES** Defendant's Motion.

BACKGROUND

In 1995, adidas brought an action in this Court against Wal-Mart alleging trademark infringement and trade-dress

infringement of adidas's three-stripe trademark. The parties settled the case, and on March 15, 1996, Magistrate Judge John Jelderks signed a Judgment on Consent (1996 Consent Judgment) in which Wal-Mart was "permanently enjoined and restrained from . . . selling any footwear with three parallel stripes, . . . ordering any footwear with four parallel stripes with serrated edges on it[, and] . . . selling after April 20, 1996 any footwear with four parallel stripes with serrated edges on it." Feldman Decl., Ex. 3 at 2.

In September 1999, adidas received a trademark for three stripes with straight edges. In 2001 Wal-Mart began selling a shoe that had four straight-edged stripes. On August 13, 2002, adidas brought another action in this Court against Wal-Mart. adidas alleged trademark and trade-dress infringement, trademark and trade-dress dilution, unfair competition, and deceptive trade practices relating to the four-striped shoe that Wal-Mart was selling. adidas contended this shoe was a "knock-off" of the adidas "Superstar" shoe design, which has three straight-edged stripes. Neither adidas nor Wal-Mart, however, asserted any claim for breach or enforcement of the 1996 Consent Judgment in the 2002 action.

On November 1, 2002, Wal-Mart and adidas entered into a Settlement Agreement in the 2002 action, which provided in pertinent part:

> Nothing in this Agreement shall expand, limit or modify in any way the Parties' rights and obligations under the Judgment of Consent . . .

> dated March 15, 1996, . . . which shall remain in full force and effect.

Compl., Ex. 8 at 3.

On August 19, 2005, adidas brought this action against Wal-Mart alleging trademark infringement, trademark dilution, unfair competition, deceptive trade practices, and breach of the parties' 2002 Settlement Agreement. adidas alleges Wal-Mart is selling shoes with two and four straight-edged stripes that are confusingly similar to adidas's three straight-edged striped shoes, and, therefore, Wal-Mart is infringing adidas's trademark and violating the 2002 Settlement Agreement. Again, adidas does not assert a claim for violation of the 1996 Consent Judgment.

On February 23, 2006, Wal-Mart filed in this action a Motion to Enforce March 15, 1996 Judgment on Consent in which Wal-Mart contends adidas may pursue the remedies it now seeks only if Wal-Mart has violated the 1996 Consent Judgment and only if the remedies that adidas seeks are available under the 1996 Consent Judgment.

STANDARDS

Consent judgments should be interpreted according to the principles of contract law. *See Jeff D. v. Andrus,* 899 F.2d 753, 759 (9th Cir. 1989). *See also Stone v. City and County of San Francisci,* 968 F.2d 850, 861 n.20 (9th Cir. 1992)("The standard for enforcing the consent decrees . . . is determined by the terms of the agreement, much like a contract."). "[T]he 'scope of a consent decree must be discerned within its four

corners, and not by reference to what might satisfy the purposes of one of the parties to it' or by what 'might have been written had the plaintiff established his factual claims and legal theories in litigation.'" *Firefighters Local Union No. 1784 v. Stotts*, 467 U.S. 561, 574 (1984)(quoting *U. S. v. Armour & Co.*, 402 U.S. 673, 681-82 (1971)).

DISCUSSION

Wal-Mart asks the Court: (1) to "[i]nvoke the jurisdiction of the Judgment on Consent entered on March 15, 1996, over this matter" and (2) to "[e]valuate adidas' claims set forth in the 2005 Complaint, pursuant to the terms of the Judgment on Consent entered on March 15, 1996."

The 1996 Consent Judgment prohibited Wal-Mart from using specifically enumerated designs and prohibited adidas from continuing its action with respect to those designs. Although Wal-Mart agrees the 1996 Consent Judgment prohibits it from selling footwear with three parallel stripes or with four parallel serrated-edged stripes, Wal-Mart argues the 1996 Consent Judgment by extension allows it to make other designs that were not addressed specifically such as footwear with four parallel straight-edged stripes or footwear with two stripes. According to Wal-Mart, only the 1996 Consent Judgment governs any claim by adidas against Wal-Mart related to infringement of adidas's footwear trademark or trade-dress. Because Wal-Mart maintains it is in compliance with and has not violated the terms of the 1996 Consent Judgment, Wal-Mart argues adidas may not bring this infringement action.

On the other hand, adidas contends the 1996 Consent Judgment did not anticipate and, therefore, did not apply to two

and four straight-edged striped shoes. To support its position, adidas points out the 1996 Consent Judgment does not contain covenants that prohibit adidas from bringing an infringement action against Wal-Mart as to any stripe pattern without serrated edges nor that limit for all time adidas's rights to stripe patterns other than those at issue in the 1996 Consent Judgment. In other words, adidas maintains the 1996 Consent Judgment addressed only those designs at issue in the 1995 action (*i.e.*, the three-stripe and four serrated-edged stripe designs) and did not intend to, nor does it, encompass every stripe design of which Wal-Mart possibly could conceive.

As noted, a consent decree "must be discerned within its four corners." *United* States *v. Asarco,* 430 F.3d 972, 980 (9th Cir. 2005). The Supreme Court pointed out in *United States v. Armour & Co.* that "[c]onsent decrees are entered into by parties to a case after careful negotiation has produced agreement on their precise terms." 402 U.S. 673, 681 (1971). In *Armour,* the defendant, a meat-packing company, allowed Greyhound, a bus company, to buy an ownership share of the defendant's stock at the same time that Greyhound owned grocery subsidiaries even though the defendant was a party to a consent decree that prohibited it from owning grocery stores. *Id.* at 674. The Court concluded Armour, however, did not violate the terms of the consent decree. *Id.* at 682-83. The Court reasoned the decree would have included a prohibition against allowing a corporation like Greyhound from owning both meat-packing companies and grocery stores if the parties had intended to prevent that type of ownership. *Id.*

The analysis in *Armour* is also applicable to this case. The terms of the 1996 Consent Judgment reflect adidas

released only those claims against Wal-Mart that were the subject of the 1995 litigation. Notably, the stripe designs at issue in the current action were not produced by Wal-Mart until after the parties entered into the 1996 Consent Judgment. The Court does not find anything in the plain language of the 1996 Consent Judgment to suggest the parties considered and bargained as to every possible shoe design Wal-Mart might create that potentially could infringe adidas's trademarks. Moreover, the Court lacks the authority to read such additional terms into the 1996 Consent Judgment.

Accordingly, the Court concludes the 1996 Consent Judgment is limited to the designs at issue in the 1995 action and, therefore, does not prohibit adidas from bringing this trademark-infringement action. Thus, the Court denies Defendant's Motion to Enforce the March 15, 1996 Judgment on Consent as to shoe designs other than those actually at issue in the 1996 Consent Judgment.

CONCLUSION

For these reasons, the Court **DENIES** Defendant's Motion to Enforce March 15, 1996, Judgment on Consent (#17).

IT IS SO ORDERED.

DATED this 16th day of June, 2006.

/s/ Anna J. Brown

ANNA J. BROWN
United States District Judge